Matatiele Local Municipality
Annual Financial Statements
for the year ended 30 June 2012

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General Information

Executive committee

Mayor	N.S. Nkopane	
Executive members	M.M. Mbedla	Portfolio Head: Infrastructure
	S.A. Sello	Portfolio Head: Budget and Finance
	J. Bosman - Magangana	Portfolio Head: Corporate Services
	M.M. Mbobo	Portfolio Head: Community Services
	G.M. Letuka	Portfolio Head: Special Programmes Unit
	P.M. Stuurman	Portfolio Head: LED
	L.M. Ntshayisa	EXCO Member
	K.C. Biggs	EXCO Member
Councillors	N. Msuqwana	Speaker
	P.A. Mohale	Chief Whip
	P.T. Hloele	
	M. Lebese	
	N.A. Nkukhu	
	N.B. Nkomo	
	C.N. Sithole	
	M. Kondile	(July 2011 - March 2012)
	K.B. Pakkies	
	C.N. Sambane	
	S.A. Ndlela	
	S.T. Stuurman	
	P.C. Ntsolo	
	S. Baba	
	I.N. Maketela	
	S.M. Mzozoyana	
	L.D. Shemane	
	P.Z. Bono	
	N.N. Ndukwana	
	T. Dyantyi	
	C.L. Nxesi	
	S. Mngenela	
	M.C. Setenane	
	E.K. Sephuhle	
	N.S.N. Paula	
	S. Mavuka	
	R.T. Mnika	
	S.M. Jafta	
	N.C. Ludidi-Mzonke	
	S.B. Macuphe	
	T.S. Maqhashalala	
	P.G. Muir	
	T.V. Mongoato	
	A.M. Saliwavikwa	
	N. Njobe	
	N. Ngwanya	
	W. Potwana	
	V.M. Mlandu	
	J.Z. Munyu	

General Information

	V.C. Sigalelana	
	L.E. Stuurman	
	K.B. Makholwa	
	N.E. Kotelana	
	P.T. Motjope	(14 June 2012 - current)
Municipal Manager	DCT Nakin	
Chief Financial Officer	L Ndzelu (April 2012 - current)	
	D Van Zyl (July 2011 - January 2012)	
Grading of local authority	4	
Registered office	102 Main Street Matatiele 4730	
Physical address	102 Main Street Matatiele 4730	
Postal address	P.O. Box 35 Matatiele 4730	
Bankers	Nedbank	
Auditors	Auditor General	
Tel Number	039 737 3135	
Fax Number	039 737 3611	
Email	manager@matatiele.co.za	

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The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

Accounting Officer's Responsibilities and Approval

I am responsible for the preparation of these annual financial statements, which are set out on pages 5 to 56, in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.
I certify that the salaries, allowances and benefits of Councillors as disclosed in note 30 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

Municipal Manager
30 November 2012

Statement of Financial Position

Figures in Rand		Note(s)	2012	2011
Assets				
Current Assets				
Inventories	30.20	2	531,557	553,270
Other receivables from non-exchange transactions	33.20	3	9,461,863	10,098,490
VAT receivable from exchange transactions	31.20	4	299,522	7,248,316
Trade receivables from exchange transactions	31.20	5	5,507,320	6,748,734
Cash and cash equivalents	32.20	6	102,500,208	79,060,846
			118,300,470	**103,709,656**
Non-Current Assets				
Investment property	21.20	7	9,758,255	9,758,255
Property, plant and equipment	20.20	8	382,349,185	364,580,631
Intangible assets	23.22	9	430,165	434,922
Non-current financial assets	27.27	10	6,084,739	5,295,774
			398,622,344	**380,069,582**
Non-current assets held for sale and assets of disposal groups	68.20	11	67,300	67,300
Total Assets			**516,990,114**	**483,846,538**
Liabilities				
Current Liabilities				
Operating lease liability	41.27-28	12	-	15,787
Finance lease obligation	25.29	13	-	18,447
Payables from exchange transactions	51.20	14	14,027,913	15,403,006
Consumer deposits	53.20	15	241,992	305,624
Unspent conditional grants and receipts	43.20	16	23,779,425	20,730,687
Provisions	52.20	17	1,912,242	1,671,721
Bank overdraft	32.20	6	-	5,923,899
			39,961,572	**44,069,171**
Non-Current Liabilities				
Retirement benefit obligation	27.22	18	5,107,285	2,749,530
Provisions	52.20	17	6,650,552	5,807,034
			11,757,837	**8,556,564**
Total Liabilities			**51,719,409**	**52,625,735**
Net Assets			**465,270,705**	**431,220,803**
Net Assets				
Revaluation reserve	40.22	19	281,409,586	293,303,146
Accumulated surplus	40.24	51	183,861,119	137,917,657
Total Net Assets			**465,270,705**	**431,220,803**

Statement of Financial Performance

Figures in Rand	Note(s)	2012	2011
Revenue			
Property rates	24	13,234,519	12,775,595
Service charges	25	38,261,621	31,973,446
Profit on sale of asset		293,195	-
Rental of facilities and equipment		482,505	499,200
Public contributions and donations		-	15,000
Fines		1,650,860	966,187
Licences and permits		1,897,270	1,059,482
Government grants & subsidies	26	125,711,154	134,243,016
Creditor impairment		-	64,994
Other income	27	794,227	1,397,320
Interest earned - external investment	28	6,926,590	5,984,106
Total Revenue		**189,251,941**	**188,978,346**
Expenditure			
Employee related costs	29	(46,428,750)	(37,770,573)
Remuneration of councillors	30	(13,275,611)	(11,345,842)
Depreciation and amortisation	31	(15,905,291)	(14,709,303)
Impairment loss/ Reversal of impairments		(62,166)	-
Finance costs	32	(563,505)	(632,321)
Debt impairment	33	(2,609,770)	(928,991)
Loss on disposal of assets		(2,445,181)	(114,940)
Repairs and maintenance		(9,450,048)	(8,584,520)
Bulk purchases	34	(21,898,140)	(16,395,061)
Contracted services		(9,363,486)	(5,710,644)
Grants and subsidies paid	35	(8,467,660)	(35,504,453)
General expenses	36	(23,703,314)	(15,881,581)
Total Expenditure		**(154,172,922)**	**(147,578,229)**
Surplus for the year		**35,079,019**	**41,400,117**

Matatiele Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Statement of Changes in Net Assets

Figures in Rand	Revaluation reserve	Accumulated surplus	Total net assets
Opening balance as previously reported	305,161,866	16,744,066	321,905,932
Adjustments			
Correction of errors	-	(5,458,546)	(5,458,546)
Balance at 01 July 2010 as restated	**305,161,866**	**11,285,520**	**316,447,386**
Changes in net assets			
Surplus for the year	-	41,400,117	41,400,117
Write back of depreciation due to offsetting of accumulated surplus	(11,858,720)	14,389,403	2,530,683
Transfer to Housing Development Fund	-	(6,480)	(6,480)
Property, Plant and Equipment purchased	-	8,337,400	8,337,400
Transfer to Capital Replacement Reserve	-	(16,737,296)	(16,737,296)
Grants utilised to obtain Property,Plant and Equipment	-	(25,755,376)	(25,755,376)
Changes in revaluation surplus arising from changes in existing decommissioning, restoration and similar liabilities	-	4,059	4,059
	-	2,030,619	2,030,619
Correction of error	-	1,362,414	1,362,414
Reserves ring-fenced within accumulated surplus	-	101,607,277	101,607,277
Total changes	(11,858,720)	126,632,137	114,773,417
Opening balance as previously reported	293,303,146	137,536,189	430,839,335
Adjustments			
Change in accounting policy	-	306,513	306,513
Balance at 01 July 2011 as restated	**293,303,146**	**137,842,702**	**431,145,848**
Changes in net assets			
Transfer to housing development fund	-	(6,482)	(6,482)
Net income (losses) recognised directly in net assets	-	(6,482)	(6,482)
Surplus for the year	-	35,079,019	35,079,019
Total recognised income and expenses for the year	-	35,072,537	35,072,537
Write back of accumulated depreciation due to offsetting of accumulated surplus	-	4,715,489	4,715,489
Write back of depriciation through Capital Replacement Reserve	-	-	116,799
Purchase of Property,Plant and Equipment through reserves	-	(15,367,186)	(25,932,353)
Contribution to Capital Replacement Reserve	-	(12,414,857)	-
Write back of depreciation due to offsetting of accumulated surplus	(11,893,560)	-	(11,893,560)
Reserves ring-fenced within accumulated surplus	-	34,012,434	32,045,945
Total changes	(11,893,560)	46,018,417	34,124,857
Balance at 30 June 2012	**281,409,586**	**183,861,119**	**465,270,705**
Note(s)	19		

Cash Flow Statement

Figures in Rand	Note(s)	2012	2011
Cash flows from operating activities			
Receipts			
Sale of goods and services		54,670,142	34,561,550
Grants		125,711,154	135,377,298
Interest received		6,926,590	5,984,106
Fine receipts		1,650,860	966,187
Other receipts		10,655,872	-
Receipts through reserves		40,022	-
		199,654,640	176,889,141
Payments			
Employee costs		(59,704,361)	(49,116,416)
Suppliers		(64,235,136)	(45,663,784)
Interest paid		(563,505)	(632,321)
Other payments		(8,467,660)	(35,504,454)
		(132,970,662)	(130,916,975)
Net cash flows from operating activities	38	**66,683,978**	**45,972,166**
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(36,455,168)	(35,616,369)
Proceeds from sale of property, plant and equipment	8	-	375,000
Purchase of other intangible assets	9	(42,349)	-
Purchase of financial assets		(788,965)	(684,925)
Net cash flows from investing activities		**(37,286,482)**	**(35,926,294)**
Cash flows from financing activities			
Loans repaid		-	(135,461)
Repayment of operating lease liability		(15,787)	-
Finance lease payments		(18,447)	-
Net cash flows from financing activities		**(34,234)**	**(135,461)**
Net increase/(decrease) in cash and cash equivalents		**29,363,262**	**9,910,411**
Cash and cash equivalents at the beginning of the year		73,136,947	63,226,536
Cash and cash equivalents at the end of the year	6	**102,500,209**	**73,136,947**

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:
- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired at no cost or for a nominal cost, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

Subsequent measurement

Investment property is measured using the fair value model. Under the fair value model, investment property is carried at its fair value at the reporting date. Any gain or loss arising from a change in the fair value of the property is included in surplus or deficit for the period in which it arises.

1.2 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

Accounting Policies

1.2 Property, plant and equipment (continued)

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

Accounting Policies

1.2 Property, plant and equipment (continued)

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.
Land is not depreciated as it is regarded as having an infinite life. Depreciation on assets other than land is calculated on cost, using the straight line method, to allocate their cost to their residual values over the estimated useful lives of the assets. The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The depreciation rates are initially based on the following originally estimated useful lives and thereafter on the estimated remaining useful lives as at year-end:

Infrastructure:	**Years**	**Community**:	**Years**	**Other**:	**Years**
Roads and Paving	10-100	Improvements	25-30	Buildings	25-30
Electricity	15-60	Recreational facilities	15-30	Specialist vehicles	10-15
Water	15-100	Security	15-25	Other vehicles	05-10
Sewerage	16-60			Office equipment	03-15
Landfill Sites	10-65			Furniture and fittings	05-15
Housing	30			Watercraft	15-20
Pedestrian Malls	15-30			Bins and containers	05-15
				Specialiased equipment	10-15
				Other plant and equip	02-15

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited in revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

A register containing all items of Property, Plant and Equipment along with their residual values, depreciation, accumulated depreciation, impairment loss and revalued amounts are available at the municipal offices.

1.3 Intangible assets

An asset is identified as an intangible asset when it:
- is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the municipality or from other rights and obligations.

An intangible asset is recognised when:
- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

An intangible asset acquired at no or nominal cost, the cost shall be its fair value as at the date of acquisition.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:
- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values.

Intangible assets are derecognised:
- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

Accounting Policies

1.4 Financial instruments

Classification

The entity classifies financial assets and financial liabilities into the following categories:

- Financial assets at fair value through surplus or deficit - held for trading
- Financial assets at fair value through surplus or deficit - designated
- Held-to-maturity investment
- Loans and receivables
- Available-for-sale financial assets
- Financial liabilities at fair value through surplus or deficit - held for trading
- Financial liabilities at fair value through surplus or deficit - designated
- Financial liabilities measured at amortised cost

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through surplus or deficit, which shall not be classified out of the fair value through surplus or deficit category.

Initial recognition and measurement

Financial instruments are recognised initially when the municipality becomes a party to the contractual provisions of the instruments.

The municipality classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available-for-sale financial assets.

For financial instruments which are not at fair value through surplus or deficit, transaction costs are included in the initial measurement of the instrument.

Transaction costs on financial instruments at fair value through surplus or deficit are recognised in surplus or deficit.

Subsequent measurement

Financial instruments at fair value through surplus or deficit are subsequently measured at fair value, with gains and losses arising from changes in fair value being included in surplus or deficit for the period.

Net gains or losses on the financial instruments at fair value through surplus or deficit dividends and interest.

Dividend income is recognised in surplus or deficit as part of other income when the municipality's right to receive payment is established.

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Held-to-maturity investments are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Available-for-sale financial assets are subsequently measured at fair value. This excludes equity investments for which a fair value is not determinable, which are measured at cost less accumulated impairment losses.

Gains and losses arising from changes in fair value are recognised in equity until the asset is disposed of or determined to be impaired. Interest on available-for-sale financial assets calculated using the effective interest method is recognised in surplus or deficit as part of other income. Dividends received on available-for-sale equity instruments are recognised in surplus or deficit as part of other income when the municipality's right to receive payment is established.

Changes in fair value of available-for-sale financial assets denominated in a foreign currency are analysed between translation differences resulting from changes in amortised cost and other changes in the carrying amount. Translation differences on monetary items are recognised in surplus or deficit, while translation differences on non-monetary items are recognised in equity.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

Accounting Policies

1.4 Financial instruments (continued)

Impairment of financial assets

At each end of the reporting period the municipality assesses all financial assets, other than those at fair value through surplus or deficit, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the municipality, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator of impairment. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in surplus or deficit - is removed from equity as a reclassification adjustment and recognised in surplus or deficit.

Impairment losses are recognised in surplus or deficit.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Reversals of impairment losses are recognised in surplus or deficit except for equity investments classified as available-for-sale.

Impairment losses are also not subsequently reversed for available-for-sale equity investments which are held at cost because fair value was not determinable.

Derecognition

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the municipality retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a ‘pass-through’ arrangement; or
- the municipality has transferred its rights to receive cash flows from the asset and either
  - has transferred substantially all the risks and rewards of the asset, or
  - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the municipality has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the municipality’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the municipality could be required to repay. Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the municipality’s continuing involvement is the amount of the transferred asset that the municipality may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the municipality’s continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in surplus or deficit.

1.4 Financial instruments (continued)

Impairment of financial assets

The municipality assesses at each statement of financial position date whether a financial asset or group of financial assets is impaired.

Assets are carried at amortised cost.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognised in surplus or deficit. The municipality first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

1.5 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessor

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality's net investment in the finance lease.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.6 Inventories

Inventories are initially measured at cost except where inventories are acquired at no cost, or for nominal consideration, then their costs are their fair value as at the date of acquisition. Cost generally refers to the purchase price, plus taxes, transport costs and any other costs in bringing the inventories to their current location and condition. Where inventory is manufactured, constructed or produced, the cost includes the cost of labour, materials and overheads used during the manufacturing process.

1.6 Inventories (continued)

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.7 Non-current assets held for sale and disposal groups

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets held for sale (or disposal group) are measured at the lower of its carrying amount and fair value less costs to sell.

A non-current asset is not depreciated (or amortised) while it is classified as held for sale, or while it is part of a disposal group classified as held for sale.

Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognised in surplus or deficit.

1.8 Impairment of cash-generating assets

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the individual asset.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined.
The best evidence of fair value less cost to sell is the price in a binding sale agreement in an arm’s length transaction, adjusted for the incremental cost that would be directly attributable to the disposal of the asset.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.
If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.
An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit.
An impairment of assets carried at revalued amount in reduces the revaluation surplus for that asset. The decrease shall be debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.
An impairment loss is recognised for cash-generating units if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit as follows:

- to the assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

A municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.
The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit.

1.9 Impairment of non-cash-generating assets

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

If it is not possible to estimate the recoverable service amount of the individual asset, the recoverable service amount of the cash-generating unit to which the asset belongs is determined.

The recoverable service amount is the higher of non-cash generating asset's fair value less costs to sell and its value in use. The value in use for non-cash generating asset is the present value of the asset's remaining service potential.

If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any impairment loss of a revalued asset is treated as a revaluation decrease.

An impairment loss is recognised for non cash-generating units if the recoverable service amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit as follows:

- to the assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

A municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable service amounts of those assets are estimated.
The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

1.10 Employee cost

These are all costs paid by an employer in exchange for services rendered by an employee. These included employee benifits such as salaries, bonuses, housing allowance, medical and other contributions, which is recognised in the income statement during the period in which the employee renders the related service. Detailed policies can also be noted under the Employee Benifits note.

1.11 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the entity's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

1.11 Employee benefits (continued)

Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined using the projected credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Consideration is given to any event that could impact the funds up to end of the reporting period where the interim valuation is performed at an earlier date.

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

To the extent that, at the beginning of the financial period, any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in surplus or deficit over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognised.

Gains or losses on the curtailment or settlement of a defined benefit plan is recognised when the entity is demonstrably committed to curtailment or settlement.

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduces by the fair value of plan assets.

Any asset is limited to unrecognised actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.

1.12 Provisions and contingencies

Provisions are recognised when:
- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Accounting Policies

1.12 Provisions and contingencies (continued)

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

1.13 Revenue from exchange transactions

Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered / goods sold, the value of which approximates the consideration received or receivable.

Service charges relating to electricity are based on consumption. Meters are read on a quarterly basis and are recognised as revenue when invoiced. Provisional estimates of consumption are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period.

Revenue from the sale of electricity prepaid meter cards is recognised at the point of sale.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the recorded number of refuse containers per property.

Interest revenue is recognised on a time proportion basis.

Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

Dividends are recognised on the date that the Municipality becomes entitled to receive the dividend.

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant gazetted tariff. This includes the issuing of licences and permits.

Revenue from the sale of goods is recognised when substantially all the risks and rewards in those goods is passed to the consumer.

Revenue arising out of situations where the municipality acts as an agent on behalf of another entity (the principal) is limited to the amount of any fee or commission payable to the municipality as compensation for executing the agreed services.

Accounting Policies

1.14 Revenue from non-exchange transactions

Revenue from non-exchange transactions refers to transactions where the municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportionate basis.

Fines constitute both spot fines and summonses. Revenue from spot fines and summonses is recognised when payment is received, together with an estimate of spot fines and summonses that will be received based on past experience of amounts collected.

Revenue from public contributions and donations is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment qualifies for recognition and first becomes available for use by the municipality. Where public contributions have been received but the municipality has not met the related conditions, a deferred income (liability) is recognised.

Contributed property, plant and equipment is recognised when such items of property, plant and equipment qualifies for recognition and become available for use by the municipality.

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No.56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain.

Government grants

Grants, transfers and donations received or receivable are recognised when the resources that have been transferred meet the criteria for recognition as an asset. A corresponding liability is raised to the extent that the grant, transfer or donation is conditional. The liability is transferred to revenue as and when the conditions attached to the grant are met. Grants without any conditions attached are recognised as revenue when the asset is recognised.

1.15 Borrowing costs

It is inappropriate to capitalise borrowing costs when, and only when, there is clear evidence that it is difficult to link the borrowing requirements of an entity directly to the nature of the expenditure to be funded i.e. capital or current.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.16 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.17 Unauthorised expenditure

Unauthorised expenditure means:
- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.18 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

Accounting Policies

1.18 Fruitless and wasteful expenditure (continued)

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.19 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

(a) this Act; or
(b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
(c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

1.20 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the annual financial statements.

1.21 Related parties

Individuals as well as their close family members, and/or entities are related parties if one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Key management personnel is defined as the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

Accounting Policies

1.22 Commitments

Items are classified as commitments where the Municipality commits itself to future transactions that will normally result in the outflow of resources.
Commitments are not recognised in the statement of financial position as a liability or as expenditure in the statement of financial performance but are included in the disclosure notes. A distinction is made between capital and current commitments.

Commitments are disclosed for:
- Approved and contracted commitments, where the expenditure has been approved and the contract has been awarded at the reporting date.
- Approved but not yet contracted commitments, where the expenditure has been approved and the contract has yet to be awarded or is awaiting finalisation at the reporting date.
- Items are classified as commitments where the municipality commits itself to future transactions that will normally result in the outflow of resources.
- Contracts that are entered into before the reporting date, but goods and services have not yet been received are disclosed in the disclosure notes to the financial statements.

- Other commitments for contracts are be non-cancellable or only cancellable at significant cost contracts should relate to something other than the business of the municipality

Accounting Policies

1.23 Accumulated surplus

Included in the accumulated surplus of the municipality, are the following reserves that are maintained in terms of specific requirements:

1.23.1 Housing development fund / Housing operating account

Sections 15(5) and 16 of the Housing Act, (Act No. 107 of 1997), which came into operation on 1 April 1998, required that the Entity maintain a separate housing operating account. This legislated separate operating account is known as the Housing Development Fund.
The Housing Development Fund was established in terms of the Housing Act, (Act No. 107 of 1997). Loans from national and provincial government used to finance housing selling schemes undertaken by the Municipality were extinguished on 1 April 1998 and transferred to a Housing Development Fund. Housing selling schemes both complete and in progress as at 1 April 1998, were also transferred to the Housing Development Fund. In terms of the Housing Act, all proceeds from housing developments, which include rental income and sales of houses, must be paid into the Housing Development Fund. Monies standing to the credit of the Housing Development Fund can be used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

The following provisions are set for the creation and utilisation of the Housing Development Fund:

• The Housing Development Fund is cash-backed, and invested in accordance with the investment policy of the municipality.

• The proceeds in this fund are utilised for housing development in accordance with the National Housing Policy, and also for housing development projects approved by the MEC for Human Settlements.

• Any contributions to or from the fund are shown as transfers in the Statement of Changes in Net Assets.

• Interest earned on the investments of the fund is disclosed as interest earned in the Statement of Financial Performance

1.23.2 Revaluation Reserve

The surplus arising from the revaluation of land and buildings is credited to a non-distributable reserve. The revaluation surplus is realised as revalued buildings are depreciated, through a transfer from the revaluation reserve to the accumulated surplus/ (deficit). On disposal, the net revaluation surplus is transferred to the accumulated surplus/ (deficit) while gains or losses on disposal, based on revalued amounts, are credited or charged to the Statement of Financial Performance.

1.23.3 Capital Replacement Reserve (CRR)

In order to finance the provision of infrastructure and other property, plant and equipment from internal sources, amounts are transferred from the accumulated surplus to the CRR in terms of delegated powers.

The following provisions are set for the creation and utilisation of the CRR:

• The cash funds that back up the CRR are invested until utilised. The cash may only be invested in accordance with the investment policy of the Entity.

• The CRR may only be utilised for the purpose of purchasing items of property, plant and equipment, and may not be used for the maintenance of these items.

• Whenever an asset is purchased out of the CRR, an amount equal to the cost price of the asset is transferred from the CRR, and the accumulated surplus is credited by a corresponding amount.

• If a profit is made on the sale of assets other than land, the profit on these assets is reflected in the Statement of Financial Performance, and is then transferred via the Statement of Changes in Net Assets to the CRR, provided that it is cash backed.
Profit on the sale of land is not transferred to the CRR, as it is regarded as revenue.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

2. Inventories

Consumable stores	528,888	550,601
Medallions - at cost	2,669	2,669
	531,557	**553,270**

Inventories are held for own use with the result that no write downs of inventory to net realisable value were required.

3. Other receivables from non-exchange transactions

S Zuko Consulting	-	266,687
Sundry Debtors Control	221,476	53,005
Debtors Sundry	10,092,771	10,097,813
Housing Debtors	19,623	20,124
Health Subsidy Control	505,967	965,701
Debtors Interest	207,022	70,618
Pre-paid Expenses	46,630	629,961
Less: Provision for Impairment	(1,631,626)	(2,005,419)
	9,461,863	**10,098,490**

Other receivables from non-exchange transactions pledged as security

Health Subsidy Control relates to expenses incurred by the municipality on an agency basis on behalf of the Provincial Government , a sundry debtor is raised which will be recovered.

Sundry Debtors Control relates to monthly cellphone account of Councillors for the month of June 2012 which was deducted from their salary in July 2012.

Debtors Sundry relates to Alfred Nzo District Municipality and Sisonke District Municipality for transfer of water services.

Pre-paid Expenses relates to expenditure incurred for a conferences and meetings held in July 2012.

S Zuko is a creditor who was erroneously paid twice. This amount has since been recovered.

The management of the municipality is of the opinion that the carrying value of Trade Receivables from Non-Exchange Transactions approximate their fair values.

4. VAT receivable from exchange transactions

VAT	299,522	7,248,316

VAT is payable on the payments basis. Once payment is received from debtors, VAT is paid over to SARS.

5. Trade receivables from exchange transactions

Gross balances		
Rates	16,249,438	14,196,236
Electricity	3,109,131	5,144,557
Refuse	6,775,614	5,051,240
	26,134,183	**24,392,033**

Less: Provision for debt impairment		
Rates	(13,601,257)	(13,321,658)
Electricity	(1,303,046)	(283,717)
Refuse	(5,722,560)	(4,037,924)
	(20,626,863)	**(17,643,299)**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

5. Trade receivables from exchange transactions (continued)

Net balance		
Rates	2,648,181	874,578
Electricity	1,806,085	4,860,840
Refuse	1,053,054	1,013,316
	5,507,320	**6,748,734**

Rates		
Current (0 -30 days)	48,865	(922)
31 - 60 days	4,907	61,021
61 - 90 days	392,844	4,455
91 - 120 days	348,273	372,297
121 - 150 days	250,463	251,417
> 150 days	15,204,086	13,507,968
Impairment	(13,601,257)	(13,321,658)
	2,648,181	**874,578**

Electricity		
Current (0 -30 days)	1,491,474	(83,887)
31 - 60 days	419,988	1,391,657
61 - 90 days	125,905	512,458
91 - 120 days	541,135	354,852
121 - 150 days	45,981	246,539
> 150 days	484,648	2,722,938
Impairment	(1,303,046)	(283,717)
	1,806,085	**4,860,840**

Refuse		
Current (0 -30 days)	587,552	(2,334)
31 - 60 days	346,703	500,438
61 - 90 days	256,955	304,983
91 - 120 days	224,203	202,240
121 - 150 days	206,126	182,018
> 150 days	5,154,075	3,863,895
Impairment	(5,722,560)	(4,037,924)
	1,053,054	**1,013,316**

Reconciliation of debt impairment provision		
Balance at beginning of the year	(17,643,299)	(14,329,452)
Contributions to provision	(2,983,564)	(3,313,847)
	(20,626,863)	**(17,643,299)**

Consumers debtors are billed monthly, at latest by the end of the month. No interest is charged on trade receivables until the 30th of the following month. Thereafter interest is charged at a rate determined by council on the outstanding balance. The municipality enforces its approved credit control policy to ensure the recovery of Consumer Debtors.

The municipality receives applications for services that it processess. Deposits are required to be paid for all electrical accounts opened. There are no consumers who represent more than 5% of the total balance of Consumers Debtors.

The management of the municipality is of the opinion that the carrying value of Consumer Debtors approximate their fair values.

The fair value of consumer debtors was determined after considering the standard terms and conditions of agreement entered into between the municipality and Consumer Debtors as well as the current payment ratios of the municipality's consumers.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

6. Cash and cash equivalents

Cash and cash equivalents consist of:

	2012	2011
Cash on hand	1,250	1,250
Bank balances	1,980,066	139,264
Short-term deposits	100,518,892	78,920,332
Bank overdraft	-	(5,923,899)
	102,500,208	**73,136,947**
Current assets	102,500,208	79,060,846
Current liabilities	-	(5,923,899)
	102,500,208	**73,136,947**

The management of the municipality is of the opinion that the carrying value of bank balances, cash and cash equivalents, recorded at amortised cost in the Annual Financial Statements, approximate their fair values.

Short-term deposits represent investments held at various financial institutions. An investment register detailing these accounts is available at the municipal offices.

The municipality had the following bank accounts

Account number / description	**Bank statement balances**			**Cash book balances**		
	30 June 2012	**30 June 2011**	**30 June 2010**	**30 June 2012**	**30 June 2011**	**30 June 2010**
Nedbank - Matatiele Account number 1011292106	2,051,733	-	-	1,765,742	-	-
Standard Bank - Matatiele Account number 060435224	137,734	139,264	1,972,019	137,734	139,264	1,972,019
First National Bank - Matatiele Account number 62108495817	76,590	(182,214)	1,036,864	76,590	(5,923,899)	(1,409,824)
Total	**2,266,057**	**(42,950)**	**3,008,883**	**1,980,066**	**(5,784,635)**	**562,195**

7. Investment property

	2012			2011		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	9,758,255	-	9,758,255	9,758,255	-	9,758,255

Reconciliation of investment property - 2012

	Opening balance	**Total**
Investment property	9,758,255	9,758,255

7. Investment property (continued)

Investment Property Information

All of the municipality's investment properties are held under freehold interests and no Investment Property had been pledged as security for any liabilities of the municipality.

There are no restrictions on the reliability of investment property or the remittance of revenue and proceeds of disposal.

There are no contractual obligations on investment property.

A register of Investment property is available at the municipal offices.

The effective date of revaluations was 30 June 2012.

The valuation was performed using data based on arms length transactions and related market evidence.

8. Property, plant and equipment

	2012			2011		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land	28,380,841	(1,196,142)	27,184,699	27,851,270	(575,861)	27,275,409
Infrastructure	290,282,032	(26,851,834)	263,430,198	261,008,071	(17,092,468)	243,915,603
Community	87,395,198	(6,830,304)	80,564,894	84,501,157	(3,408,292)	81,092,865
Other property, plant and equipment	19,042,130	(7,872,736)	11,169,394	18,391,454	(6,094,700)	12,296,754
Total	**425,100,201**	**(42,751,016)**	**382,349,185**	**391,751,952**	**(27,171,321)**	**364,580,631**

Reconciliation of property, plant and equipment - 2012

	Opening balance	**Additions**	**Capital under construction**	**Write off**	**Depreciation**	**Impairment loss**	**Total**
Land	27,275,409	179,300	350,271	-	(620,281)	-	27,184,699
Infrastructure	243,915,603	30,493,974	1,510,765	(2,730,778)	(9,759,366)	-	263,430,198
Community	81,092,865	691,516	2,202,525	-	(3,422,012)	-	80,564,894
Other property, plant and equipment	12,296,754	1,026,817	-	(313,975)	(1,778,036)	(62,166)	11,169,394
	364,580,631	**32,391,607**	**4,063,561**	**(3,044,753)**	**(15,579,695)**	**(62,166)**	**382,349,185**

Reconciliation of property, plant and equipment - 2011

	Opening balance	**Additions**	**Capital under construction additions**	**Disposals**	**Correction of error**	**Depreciation**	**Total**
Land	26,220,226	1,619,422	-	-	9,871	(574,110)	27,275,409
Infrastructure	231,077,255	23,451,995	-	-	(1,336,728)	(9,276,919)	243,915,603
Community	80,153,074	3,943,642	394,462	-	-	(3,398,313)	81,092,865
Other property, plant and equipment	7,852,132	6,601,288	-	(489,940)	(131,812)	(1,534,914)	12,296,754
	345,302,687	**35,616,347**	**394,462**	**(489,940)**	**(1,458,669)**	**(14,784,256)**	**364,580,631**

8. Property, plant and equipment (continued)

Revaluations

The effective date of the revaluations was 30 June 2012. Revaluations were performed by independent valuer, Mr Eric Robenson in 2006 and were re-assessed at the reporting date. Eric Robenson is not connected to the municipality .

Infrastructure Assets were revalued in 2009 by AuroCon.

Land and buildings are re-valued independently every 4 years.

The valuation was performed using data based on arms length transactions.

These assumptions were based on current market conditions.

Refer to appendix B and C for detailed and segmental analysis of property, plant and equipment.

9. Intangible assets

	2012			2011		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Computer software	502,516	(72,351)	430,165	460,167	(25,245)	434,922

Reconciliation of intangible assets - 2012

	Opening balance	**Additions**	**Amortisation**	**Total**
Computer software	434,922	42,349	(47,106)	430,165

Reconciliation of intangible assets - 2011

	Opening balance	**Correction of error**	**Total**
Computer software	2,144,868	(1,709,946)	434,922

Other information

All of the municipality's intangible assets are held under freehold interests and no intangible assets have been pledged as security for any liabilities of the municipality.

10. Non-current financial assets

The municipality has fixed deposits to the value of R106 603 631 (2011:R84 216 107). Of that, R100 518 892 (2011:R78 920 332) represents the current portion of the fixed deposit and transferred to short term deposits (see note 6). The remainder of the Fixed deposit, R6 084 739 (2011:R5 295 774), represents the non-current portion. This account is held with Nedbank, account number 03/788100612, and matures on 25th May 2014.

Fixed deposits are investments with a maturity period of more than 12 months and earn interest rates varying from 2.65% to 5% per annum. The management of the municipality is of the opinion that the carrying value of Investments carried at amortised costs in the Annual Financial Statements approximate their fair values.

Figures in Rand	2012	2011

11. Non-current assets held for sale

The municipality has, in total, R67 300 worth of assets which are classified as held-for-sale.

We had handed over these to the Lawyers (Dwayer) and we were then made aware that he has been de-registered. We have since handed over these to Elliot and Walker Attorney for them to assist us with sale of these.

12. Operating lease liability

Operating lease liabilities	-	15,787

Operating leases relate to property, plant and equipment with lease terms not longer than 3 years, with an option to extend for a futher period. All operating lease contracts contain market review clauses in the event that the municipality exercises its option to renew. The municipality does not have an option to purchase the leased asset at the expiry of the leased period.

Current liabilities		
At amortised cost	-	15,787

13. Finance lease obligation

Minimum lease payments due		
- within one year	-	18,447

Present value of minimum lease payments due		
- within one year	-	18,447

Finance leases relate to property, plant and equipment with lease terms not more than 3 years (2011: 3 years). The effective interest rate on Finance Leases was 10.5% (2011: 10,5%).

The municipality has the option to purchase the leased Property, Plant and Equipment at the conclusion of the lease agreements. The municipality's obligations under finance leases are secured by the lessors' title to the leased assets.

The finance leases ended in the current year and no additional finance leases were taken.

14. Payables from exchange transactions

Trade payables	6,793,385	2,771,524
Leave provision	2,473,554	2,021,422
Income received in advance	18,510	409,648
Payments received in advance	2,759,934	8,962,702
Other creditors	1,060,305	446,116
Bonus accrual	922,225	791,594
	14,027,913	**15,403,006**

14. Payables from exchange transactions (continued)

The average credit period on purchases is 30 days from the receipt of the statement, as determined by the MFMA. No interest is charged for the first 30 days from the date of receipt of the invoice. Thereafter interest is charged in accordance with the credit policies of the various individual creditors that the municipality deals with. The municipality has financial risk policies in place to ensure that all payables are paid within the credit timeframe.

Income received in advance is due to payments received for hall hire and prepaid electricity.

Payments received in advance are consumer debtors' accounts paid in advance. A correction of error has been passed as a result of overcharging of a consumer, Tayler Bequest Hospital, for the amount of R7 547 589 in the prior year.

Staff leave accrue to the staff of the municipality on an annual basis, subject to certain conditions. The accrual is an estimate of the amount due at the reporting date.

The management of the municipality is of the opinion that the carrying value of creditors approximate their fair values.

The fair value of creditors was determined after considering the standard terms and conditions of agreements entered into between the municipality and other parties.

Bonus accrual is calculated on a 13th cheque attributable to all staff.

15. Consumer deposits

	2012	2011
Electricity	241,992	305,624

Consumer deposits are paid by consumers on application for new electricity connections. The deposits are repaid when the electricity connections are terminated. In cases where consumers default on their accounts, the municipality can utilise the deposit as payment for the outstanding account. No interest is paid on Consumer deposits held.

The management of the municipality is of the opinion that the carrying value of Consumer deposits approximate their fair values. The fair value of Consumer deposits was determined after considering the standard terms and conditions of agreements entered into between the municipality and its consumers.

16. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

	2012	2011
National government grants	12,416,884	7,287,291
Provincial government grants	4,020,368	6,375,108
Local government grants	168,929	835,987
Other spheres of government	7,173,244	6,232,301
	23,779,425	**20,730,687**

The nature and extent of government grants recognised in the annual financial statements are an indication of other forms of government assistance from which the municipality has directly benefited.

Unfulfilled conditions and other contingencies attached to government assistance that has been recognised. Refer to note 26.

These amounts are invested in a ring-fenced investment until utilised.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

17. Provisions

Reconciliation of provisions - 2012

	Opening Balance	Additions	Total
Environmental rehabilitation	5,334,162	509,642	5,843,804
Provision for long service award	896,584	487,761	1,384,345
Performance bonus	1,038,993	48,716	1,087,709
Post retirement medical aid benefits	209,016	37,920	246,936
	7,478,755	**1,084,039**	**8,562,794**

Reconciliation of provisions - 2011

	Opening Balance	Additions	Total
Rehabilitation of land-fill site	4,868,966	465,196	5,334,162
Provision for long service award	883,362	13,222	896,584
Performance bonus	410,071	628,922	1,038,993
Post retirement medical aid benefits	181,536	27,480	209,016
	6,343,935	**1,134,820**	**7,478,755**

	2012	2011
Non-current liabilities	6,650,552	5,807,034
Current liabilities	1,912,242	1,671,721
	8,562,794	**7,478,755**

Performance bonuses accrue to senior managers on an annual basis, subject to certain conditions. The provision is an estimate of the amount due at the reporting date.

The municipality has an obligation to provide long-service allowance benefits to all of its employees. According to the rules of the Long-service Allowance Scheme, which the municipality instituted and operates, an employee (who is on the current conditions of service), is entitled to a cash allowance, calculated in terms of the rules of the scheme, after 5 years and every 5 years thereafter of continued service. The municipality’s liability is based on an actuarial valuation. The projected unit credit method has been used to value the liabilities. Actuarial gains and losses on the long-term incentives are accounted for through the statement of financial performance.

The municipality provides certain post-retirement health care benefits by funding the medical aid contributions of qualifying retired members of the municipality. According to the rules of the medical aid funds, with which the municipality is associated, a member (who is on the current Conditions of Service) is entitled to remain a continued member of such medical aid fund on retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee. The municipality operates an unfunded defined benefit plan for these qualifying employees. No other post-retirement benefits are provided to these employees.

Environmental rehabilitation provision

The minimum requirements for waste disposal by landfill as stated by the Department of Water Affairs and Forestry, " All land fills, except those closed prior to August 1990 when the permitting system came into effect, must be permitted before they can be legally closed. Closure will involve, inter alia, the application of final cover, top soiling, vegetating, drainage maintenance and leachate management."

The financial implications for the rehabilitation of the landfill site were performed by ADV. C P Herbst, whom is a mineral and enviromental laws consultant. This was carried out on the 2 July 2012 for the effective date, 30 June 2012. Currently no appointment for the closure has been made, and therefore estimates have been compiled. The provision is based on a 15 year estimation.

Figures in Rand	2012	2011

17. Provisions (continued)

Landfill sites generally fall into 3 catagories, which are seperated by the size of the landfill, the type of waste and the amount of leachate produced. The land fill site clousure design is based on it falling in the G:S:B+ formation which has the following capping layers:

- 200mm Topsoil
- 300mm Compacted clay

In calculating the provision for rehabilitation, the following four items have been included:

Direct contract costs - this equates to a unit cost of 90 rand per square meter based on previous clousure of the Ducats landfill. Unit costs are used to estimate rehabilitation costs until a service provider is appointed to perform an investigation and design.

Indirect professional fees - these fees are fixed and are based on a percentage of the contract.

Indirect disbursements - These are estimated by obtaining quotations from third party service providers for similar works.

Escalation has also been considered and included in the costs.

The monetary value for the provision for the landfill site at 30 June 2012 is R 5 843 803.92.

18. Employee benefit obligations

The amounts recognised in the statement of financial position are as follows:

	2012	2011
Carrying value		
Post-Employment Health Care Benefit Liability	(5,354,221)	(2,958,546)
Transfer to current provisions	246,936	209,016
Net liability	**(5,107,285)**	**(2,749,530)**

The municipality provides certain post-retirement health care benefits by funding the medical aid contributions of qualifying retired members of the municipality. According to the rules of the Medical Aid Funds, with which the municipality is associated, a member (who is on the current Conditions of Service) is entitled to remain a continued member of such medical aid fund on retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee. The municipality operates an unfunded defined benefit plan for these qualifying employees. No other post-retirement benefits are provided to these employees.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2012 by Chanan Weiss of ARCH Actuarial Consulting, Fellow of the faculty of Actuaries and Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

Changes in the present value of the defined benefit obligation are as follows:

	2012	2011
Opening balance	2,958,546	3,122,956
Liabilities extinguished on settlements	(209,016)	(181,536)
Net expense recognised in the statement of financial performance	2,604,691	17,126
Closing balance	**5,354,221**	**2,958,546**

Net expense recognised in the statement of financial performance

	2012	2011
Current service cost	156,068	156,541
Interest cost	232,007	279,760
Actuarial (gains)/losses	2,216,616	(419,175)
Total included in employee related costs	**2,604,691**	**17,126**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

18. Employee benefit obligations (continued)

Key assumptions used

Assumptions used at the reporting date:

Average retirement age - females	63	63
Average retirement age - males	63	63
Discount rates used	7.73 %	8.12 %
Health care cost inflation rate	7.09 %	7.20 %
Net effective discount rate	0.60 %	1.82 %

Other assumptions

Assumed healthcare cost trends rates have a significant effect on the amounts recognised in surplus or deficit. A one percentage point change in assumed healthcare cost trends rates would have the following effects:

	One percentage point increase	One percentage point decrease
Effect on the aggregate of the service cost and interest cost	460,500	331,100
Effect on defined benefit obligation	6,293,000	4,614,000

Amounts for the current and previous three years are as follows:

	2012 R	2011 R	2010 R	2009 R	2008 R
Defined benefit obligation	5,354,221	2,958,546	3,122,956	2,965,361	-
Fair value of plan assets	-	-	-	-	-
Surplus (deficit)	(5,354,221)	(2,958,546)	(3,122,956)	(2,965,361)	-

19. Revaluation reserve

Opening balance	293,303,146	305,161,866
Change during the year	(11,893,560)	(11,858,720)
	281,409,586	**293,303,146**

The revaluation reserve arise on the revaluation of land and buildings. Where revalued land and buildings are sold, the portion of the revaluation reserve that relates to that asset, and is effectively realised, is transfered directly to accumulated surplus. Distribution from the revaluation reserve can be made where they are in accordance with the requirements of the municipality's accounting policy and relavent case law. The payment of cash distribution out of the reserve is restricted by the terms of the municipality's accounting policy. These restrictions do not apply to any amounts transferred to accumulated surplus. The council do not currently intend to make any distributions from the revaluation reserve.

20. Capital replacement reserve

The capital replacement reserve is a reserve to finance future capital expenditure and is fully invested in ring-fenced financial instrument investments.

Opening balance	-	19,854,941
Change during the year	1,966,489	8,419,953
Transfer to accumulated surplus (ring-fenced within)	(1,966,489)	(28,274,894)
	-	**-**

Figures in Rand	2012	2011

21. Government grant reserve

The goverment grant reserve equals the carrying value of the items of property, plant and equipment financed from goverment grants. The goverment grants reserve ensure consumer equity and is not backed by cash.

Opening balance	-	50,379,073
Change during the year	20,082,582	22,753,209
Correction of error	-	(1,362,414)
Transfer to accumulated surplus (ring-fenced within)	(20,082,582)	(71,769,868)
	-	-

22. Housing development fund

The housing development fund has its origin from loans extinguished by goverment on 1 April 1998 and the net of housing transactions appropriated to the fund thereafter. No separate unappropriated surplus account for housing transactions was kept.

The Housing Development Fund contains all proceeds from housing developments, which include rental income and sales of houses. Monies standing to the credit of the Housing Development Fund are used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

Opening balance	-	1,496,434
Changes during the year	69,804	66,081
	(69,804)	(1,562,515)
	-	-

23. Revenue

Property rates	13,234,519	12,775,595
Service charges	38,261,621	31,973,446
Profit on sale	293,195	-
Rental of facilities & equipment	482,505	499,200
Public contributions and donations	-	15,000
Fines	1,650,860	966,187
Licences and permits	1,897,270	1,059,482
Government grants & subsidies	125,711,154	134,243,016
	181,531,124	**181,531,926**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	38,261,621	31,973,446
Profit on sale	293,195	-
Rental of facilities & equipment	482,505	499,200
Licences and permits	1,897,270	1,059,482
	40,934,591	**33,532,128**

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue:		
Property rates	13,234,519	12,775,595
Public contributions and donations	-	15,000
Fines	1,650,860	966,187
Transfer revenue:		
Government grant and subsidies	125,711,154	134,243,016
	140,596,533	**147,999,798**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

24. Property rates

Rates received

Commercial	12,504,807	6,109,131
Residential	6,411,752	4,437,214
Agricultural	1,452,217	437,777
Vacant land	479,940	4,562,422
Exempted properties	(6,109,560)	(1,540,380)
Previous year interim rates	(340,706)	44,294
Less: Corrections	(1,163,931)	(1,274,864)
	13,234,519	**12,775,594**

Assessment rates are levied on the value of land and improvements, which valuation is performed every four years. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

Valuations

Residential	332,063,000	324,700,800
Commercial	720,323,000	725,938,982
Agricultural	401,505,000	401,663,293
Vacant land	27,646,000	27,336,260
Exempted properties	111,166,000	110,728,815
	1,592,703,000	**1,590,368,150**

Valuations on land and buildings are performed every 5 years. The last general valuation came into effect on 1 July 2009. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

A general rate of R1.44 (2011: R1.39) is applied to residential property valuations and R1.73 (2011: R1.66) to commercial property valuations to determine assessment rates. Rebates of 35% (2011: 35%) are granted to residential property owners and 10% (2011: 10%) to commercial property owners.

Rates are levied on an annual basis with the final date for payment being 30 September 2011 (30 September 2010). Interest at 18% per annum (2011: 18%) and a collection fee of -% (2011: -%), is levied on rates outstanding two months after due date.

The new general valuation will be implemented on 01 July 2014.

25. Service charges

Sale of electricity	32,488,968	26,230,861
Refuse removal	5,772,653	5,742,585
	38,261,621	**31,973,446**

The amounts disclosed above for revenue from service charges are in respect of services rendered which are billed to the consumers on a monthly basis according to approved tariffs.

Figures in Rand	2012	2011

26. Government grants and subsidies

Equitable share	92,449,000	71,817,301
National: FMG grant	1,450,000	1,200,000
National: MIG grant	24,994,125	19,180,329
National: MSIG grant	591,564	750,000
National: Department of Mineral and Energy	-	30,004,135
Provincial: DHLGTA	-	105,025
Provincial health subsidies	-	1,407,028
Local Government - Local municipalities	455,692	1,962,467
Other government	1,637,979	1,863,607
Provincial: Treasury	1,930,078	4,565,228
Provincial: DEAT	1,441,076	1,387,896
FIFA World Cup	100,000	-
Conference centre and lodges	554,387	-
Small town & rural village grant	107,253	-
	125,711,154	**134,243,016**

Equitable Share

In terms of the constitution, this grant is used to subsidise the provision of basic services to indigent community members and to fund operations.

All registered indigents on grid electricity, receive 50kWh free electricity per month. For non-grid consumers, R48 per month is contributed towards the maintenance of solar panels.

National: FMG/MIG/MSIG funds

Balance unspent at beginning of year	7,287,291	5,562,619
Current-year receipts	30,123,718	20,905,000
Conditions met - transferred to revenue	(24,994,125)	(19,180,328)
	12,416,884	**7,287,291**

Conditions still to be met - remain liabilities (see note 16).

National goverment grants comprimise of the FMG, MIG and the MSIG grants.
FMG Grant
All conditional requirements for the FMG grant have been meet thus the total amount of R 1 450 000 which was received from National Treasury has been spent in the current period.

MIG Fund
The MIG Fund had an unspent opening balance of R 6 153 008 and received a futher R 29 925 282 from National Treasury. The conditional requirements were met for a total of R 24 994 125 which was spent during the year, leaving a total of R 11 084 165 unspent at year end.

MSIG Fund
The MSIG Fund met conditions to the value of R 591 564. At year end R 198 436 remains unspent

Provincial government

Balance unspent at beginning of year	6,375,108	10,030,887
Interest allocated	484,360	1,464,807
Conditions met - transferred to revenue	(2,839,100)	(5,120,586)
	4,020,368	**6,375,108**

Conditions still to be met - remain liabilities (see note 16).

Figures in Rand	2012	2011

26. Government grants and subsidies (continued)

When demarcated from the province of KwaZulu Natal to the province of the Eastern Cape, the municipality received an establishment grant. This grant was used to cater for the bigger demarcated area and is spent is accordance with a business plan. The Unspent grant for this amounts to R4 405 069 (2011: R5 799 871).

The remainder of the provincial grant are funds used to fence the nature reserve. The Unspent grant amounts to R575 237 (2011: R575 237)

Local government

	2012	2011
Balance unspent at beginning of year	835,987	2,427,952
Current-year receipts	350,000	1,700,000
Conditions met - transferred to revenue	(1,017,058)	(3,291,965)
	168,929	**835,987**

Conditions still to be met - remain liabilities (see note 16).

The District Municipality allocates funds on an annual basis to ensure that infrastructure is maintained and to contribute in the developement of the Integrated Development Plan and Community Based Plans processes.

Other grants

	2012	2011
Balance unspent at beginning of year	6,232,301	1,000,802
Current-year receipts	3,216,030	6,482,574
Conditions met - transferred to revenue	(2,275,087)	(1,251,075)
	7,173,244	**6,232,301**

Conditions still to be met - remain liabilities (see note 15).

Grants received for Local Economic Development Projects and Extended Public Works Programme incentive.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

27. Other income

Nature reserve chalets	13,833	14,616
Telephone private calls	3,178	3,207
Electricity connections	86,098	116,803
Service connection	44,258	70,233
Sundry services	49,449	640,291
Wood sales	746	263
Pool fees	11,434	17,470
Nature reserve annual licence	6,842	10,307
Nature reserve daily fishing	7,232	9,912
Rates certificates	3,824	3,572
Building exemption certificates	3,351	4,400
Building plans	117,961	136,681
Lost books	212	558
Photo copies	697	527
Rental revenue from other facilities	3,281	193
Pound fees	207,525	159,945
Cemetery fees	68,215	39,015
Housing	-	32,227
Tender documents	75,600	136,249
Nature reserve income	79,450	851
Driveway hardening	11,041	-
	794,227	**1,397,320**

The amounts disclosed above for other income are in respect of services rendered which are billed to or paid for by the users as the services are required according to approved tariffs.

28. Investment revenue

Interest revenue		
Interest on short-term bank deposits	5,257,442	4,254,880
Loans and receivables	1,669,148	1,729,226
	6,926,590	**5,984,106**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

29. Employee related costs

Basic	33,281,191	27,513,668
Bonus	1,480,652	1,790,863
Medical aid - company contributions	839,800	685,383
UIF	324,337	308,956
SDL	12,447	17,670
Leave pay provision charge	635,642	537,820
Defined benefit plan expense	2,883,436	(92,809)
Post-employment benefits - Pension - Defined contribution plan	3,643,605	3,819,409
Overtime payments	1,162,544	1,297,495
Other allowances	27,500	44,217
Car allowance	1,699,457	1,605,516
Housing benefits and allowances	438,139	242,385
	46,428,750	**37,770,573**

Post employment benefits comprises an amount of R 3 643 605 which are pension payments.

Remuneration of Municipal Manager

Annual Remuneration	747,622	691,560
Car Allowance	230,520	230,520
	978,142	**922,080**

Dr D.C.T Nakin served as Municipal Manager for the entire year under review.

Remuneration of Chief Financial Officer

DC Van Zyl	-	-
Annual Remuneration	312,030	514,665
Car Allowance	95,576	132,307
Contributions to UIF, Medical and Pension Funds	98,319	170,618
	-	-
K Mehlomakulu	-	-
Acting allowance	33,000	-
	-	-
L Ndzelu	-	-
Annual remuneration	157,500	-
Car Allowance	52,500	-
	748,925	**817,590**

Mr D.C. Van Zyl was the Chief Financial Officer from July 2011 to January 2012 in the current year.
Mr K Mehlomakulu was the Acting Chief Financial Officer from February 2012 to March 2012 in the current year.
A new Chief Financial Officer, Mr L Ndzelu, was appointed from April 2012.

Remuneration of Corporate Services Manager

Annual Remuneration	597,529	599,217
Car Allowance	192,000	192,000
	789,529	**791,217**

Mr Z.J. Mkhize served as Corporate Services Manager for the entire year under review.

Figures in Rand	2012	2011

29. Employee related costs (continued)

Remuneration of Community Services Manager

Annual Remuneration	452,262	419,146
Car Allowance	150,000	150,000
Contributions to UIF, Medical and Pension Funds	88,191	81,734
	690,453	**650,880**

Mr S.M. Mbedla served as Community Services Manager for the entire year under review.

Remuneration of the EDP Manager

Annual Remuneration	-	469,459
Acting Allowance	231,618	-
Car Allowance	-	124,032
Contributions to UIF, Medical and Pension Funds	-	88,011
	231,618	**681,502**

The general manager EDP for the previous year, Mrs M.E. Nombungu, vacated her position with the effect of 11 May 2011. No new EDP manager was appointed in the current year. GR Tobia has been the Acting EDP manager in the current year.

Remuneration of the Infrastructure Manager

Annual Remuneration	621,376	562,000
Car Allowance	166,832	198,000
	788,208	**760,000**

Mr. B. Tshitshi served as Infrastructure Manager for the entire year under review.

Staff leave benefits

Municipal manager	137,292	103,926
Chief financial officer	28,930	17,660
Corporate services manager	94,340	82,375
Community services manager	47,365	51,034
EDP manager	40,455	19,355
Infrastructure manager	39,149	42,950
	387,531	**317,300**

30. Remuneration of councillors

Mayor	414,952	368,358
Executive Committee	2,049,982	1,894,046
Speaker	369,403	303,865
Councillors	6,775,111	3,916,076
Company contributions to UIF,medical aid and pension fund	274,948	1,554,864
Sundry allowances (Cellular phones, housing and vehicles)	3,391,215	3,308,633
	13,275,611	**11,345,842**

Figures in Rand	2012	2011

30. Remuneration of councillors (continued)

In-kind benefits

The Mayor, the Speaker, the Chief Whip and four Mayoral Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council.

The Mayor has use of a Council owned vehicle for official duties.

The Mayor has a driver/bodyguard.

31. Depreciation and amortisation

Property, plant and equipment	15,905,291	14,709,303

32. Interest paid

Finance leases	-	1,912
Bank	212	218
Amortisation of held to maturity liabilities	-	16,298
Late payment of tax	52,855	-
Other interest paid	510,438	613,893
	563,505	**632,321**

33. Debt impairment

Contributions to debt impairment provision	2,609,770	928,991

34. Bulk purchases

Electricity	21,898,140	16,395,061

Bulk purchases are the cost of commodities not generatedby the municipality, which the municipality distributes in the municipal area for resale to consumers. Electricity is purchased from Eskom. The municipality incurred electricity line losses of R 986 348 (2012: 8.52% - 2011: 30%) in the current year.

Water is supplied directly to residents and businesses by the district municipality.

35. Grants and subsidies paid

Grants paid for projects and IDP		
Landfill Site management	420,790	1,009,896
New IDP 2007-10	43,120	584,117
Nature Reserve Fencing	267,234	67,300
NER Elec Upgrade	-	27,192,982
Election: Road Upgrade	-	1,329,498
IDP Support	266,257	50,132
Khutelani Project	744,488	374,637
Mokhosi Milling Project	17,816	7,583
Small town and rural village	107,253	-
Land audit	121,384	-
EPWP incentive	938,345	-
	2,926,687	**30,616,145**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

35. Grants and subsidies paid (continued)

Other grants and subsidies		
FBS Electricity	1,178,721	1,104,418
FBS Electricity previous year	-	105,159
PMS - Alfred Nzo	171,747	-
FBS Refuse	237,102	789
FBS Refuse previous year	-	495,928
FIFA world cup	100,000	-
Thina sinako	554,387	-
Office Rental	414,005	391,904
Valuation	84,451	110,088
MDF Asset Register	13,662	72,696
Capacity building	129,552	52,024
MSIG	591,564	613,705
Organisational structure	6,165	48,298
Consumer Awareness	-	19,041
PMS	-	18,460
Housing	-	105,025
FMG	1,450,000	1,200,000
Greenest town	216,881	-
Mte Tourism Initiative	392,736	49,247
SDWDP	-	501,526
	5,540,973	**4,888,308**
	8,467,660	**35,504,453**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

36. General expenses

	2012	2011
Advertising	442,048	619,519
Assessment rates & municipal charges	-	51,562
Auditors remuneration	3,483,244	3,060,841
Bank charges	151,561	265,753
Consulting and professional fees	3,443,604	2,887,880
Consumables	466,552	282,283
Donations	-	29,420
Entertainment	5,097	4,179
Hire	81,303	43,109
Insurance	204,719	492,213
Conferences and seminars	87,224	58,322
Lease rentals on operating lease	-	102,839
Motor vehicle expenses	35,339	27,937
Fuel and oil	926,020	666,496
Postage and courier	77,544	72,717
Printing and stationery	954,025	516,636
Project maintenance costs	3,259,594	1,201,829
Subscriptions and membership fees	471,460	66,003
Telephone and fax	1,518,529	1,020,124
Transport and freight	61,492	8,159
Training	2,199,174	695,526
Electricity	536,851	177,886
Uniforms	259,175	211,071
Delegates expenses	3,456,023	1,945,849
Town planning	53,704	72,325
Obsolete stock written off	506	1,302
Public participation	409,974	424,100
Resealing	834,093	715,187
Contribution to bonus provision	179,346	-
Venue expenses	84,834	106,744
Chemicals	20,279	48,407
Farming only	-	5,363
	23,703,314	**15,881,581**

37. Auditors' remuneration

	2012	2011
Fees	3,483,244	3,060,841

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

38. Cash generated from operations

Surplus	35,079,019	41,400,117
Adjustments for:		
Depreciation and amortisation	15,905,291	14,709,303
Loss on sale of assets and liabilities	2,445,181	114,938
Unwinding of discount	-	(465,831)
Profit on sale of asset	(293,195)	-
creditor impairment	-	(64,994)
Obsolete stock written off	506	-
Finance costs	62,166	-
Debt impairment	2,609,770	928,991
Movements in retirement benefit assets and liabilities	2,357,755	199,745
Movements in provisions	1,084,039	747,706
Movement in land fill site asset	-	(245,951)
Capital Transfer to Acc Surplus	-	44,640
Contribution to leave	452,132	166,385
Stock written off	-	(1,299)
Other non-cash itmes	-	159,318
Changes in working capital:		
Inventories	21,713	4,496
Receivables from exchange transactions	-	(6,505,845)
Other receivables from non-exchange transactions	636,627	(6,181,215)
Consumer debtors	(1,663,414)	-
Payables from exchange transactions	(1,827,223)	(1,877,852)
VAT	6,948,794	-
Consumer deposits	(63,632)	(4,295)
Unspent conditional grants and receipts	3,048,738	1,770,698
Increase/(decrease) in Provisions	-	1,073,111
Movement in cash-backed reserves	(120,289)	-
	66,683,978	**45,972,166**

39. Financial instruments

Fair value information

In accordance with IAS 39.09 the financial assets and liabilities of the municipality are listed below.

The management of the municipality is of the opinion that the carrying value of Financial Assets and Financial Liabilities recorded at amortised cost in the Annual Financial Statements approximate their fair values. The fair value of Financial Assets and Financial Liabilities were determined after considering the standard terms and conditions of agreements entered into between the municipality and other parties as well as the current payment ratio's of the municipality's debtors.

Available for sale financial assets

Bank	1,980,066	139,264
Cash on hand	1,250	1,250

Fair value of held to maturity investments

Investments - Fixed deposits	6,084,739	5,295,774
Short-term investment deposits	100,518,892	78,920,332

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

39. Financial instruments (continued)

Fair values of loans and receivables

Trade Receivables from Exchange Transactions - Assessment Rates	15,970,614	13,917,413
Trade Receivables from Exchange Transactions - Electricity	3,008,089	5,043,515
Trade Receivables from Exchange Transactions - Refuse	6,676,404	4,952,030
Trade Receivables from Non-Exchange Transactions - Health Subsidy control	505,967	965,701
Trade Receivables from Non-Exchange Transactions - Sundry Debtors Control	221,467	53,005
Trade Receivables from Non-Exchange Transactions - Housing debtors	19,623	20,124
Trade Receivables from Non-Exchange Transactions - Debtors Sundry	10,092,771	10,097,813
Trade Receivables from Non-Exchange Transactions - Debtors Interest	207,022	70,618
Trade Receivables from Non-Exchange Transactions - Pre-paid expenses	46,630	629,961
Trade Receivables from Non-Exchange Transactions - S Zuko Consulting	-	266,687

Financial liabilities at amortised cost

Long-term Liabilities - Annuity Loans	-	18,446
Consumer Deposits - Electricity and Water	241,992	305,619
Creditors - Trade Creditors	6,777,189	2,755,327
Creditors - Payments received in Advance	2,759,934	8,962,702
Creditors - Staff Bonuses	2,473,554	2,021,422
Creditors - Other Creditors	1,669,775	1,055,587
Creditors - Income received in advance	18,510	409,648
Unspent Conditional Grants and Receipts - National Government Grants	11,282,602	6,153,009
Unspent Conditional Grants and Receipts - Provincial Government Grants	420,368	6,375,109
Unspent Conditional Grants and Receipts - Local Government Grants	168,929	835,986
Unspent Conditional Grants and Receipts - Other Spheres of Government	7,173,244	6,232,303
Bank Overdraft	-	5,923,899

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

39. Financial instruments (continued)

Fair value hierarchy of financial assets at fair value through surplus or deficit

The table below analyses financial instruments carried at fair value at the end of the reporting period, by level of fair-value hierarchy as required by IFRS 7. The different levels are based on the extent to which quoted prices are used in the calculation of the fair value of the financial instruments, and the levels have been defined as follows:

Level 1: Fair values are based on quoted market prices (unadjusted) in active markets for an identical instrument.

Level 2: Fair values are calculated using valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using quoted market prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active, or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Fair values are based on valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data, and the unobservable inputs have a significant effect on the instrument's valuation. Also, this category includes instruments that are valued based on quoted prices for similar instruments, where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Level 2		
Short term deposits	100,518,892	78,920,332
Bank balances and cash	8,066,055	5,436,288
Bank overdraft	-	(5,923,899)
Annuity loans	-	(18,446)
	108,584,947	**78,414,275**
Level 3		
Payments recieved in advance	(2,759,934)	(8,962,702)
Consumer deposits	(241,992)	(305,619)
	(3,001,926)	**(9,268,321)**
Total financial instruments	**105,583,021**	**69,145,954**

There where no level 1 financial instruments. Total financial instruments equate to R 105 583 021 (2011: R 69 145 954).

40. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Infrastructure	27,077,547	25,510,670

This committed expenditure which relates to Infrastructure will be financed by available bank facilities, retained surpluses, rights issue of shares, issue of debentures, mortgage facilities, existing cash resources, funds internally generated, etc.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

41. Contingencies

Matatiele Local Municipality vs M.E. Nombungu.
The plaintiff is sueing the municipality for the sum of R 364 500. At year-end, the case was still pending.
Matatiele Local Municipality vs T.S. Ntsalla..
The plaintiff is sueing the municipality for a sum of R 2 460 407. At year-end the matter is still awaiting a next court date and consequently still pending.
Matatiele Local Municipality vs X. Marubelela
The plaintiff is sueing the municipality, which could result in a possible loss of salary back pay to be paid to the applicant from March 2011.
Matatiele Local Municipality vs Mulla
The maximum possible loss from this case is not expected to exceed R 55 000.
Matatiele Local Municipality vs P.G. Hattingh
The plaintiff's claim in the above matter is for R 55 000. The case is still pending.

42. Related parties

Services rendered to related parties

	2012	2011
Rates		
Councillors	150,197	54,487
Municipal manager and section 56 personnel	8,818	-
Services		
Councillors	22,978	29,771
Municipal manager and section 56 personnel	1,171	-

Interest of related parties

Councillors and/or management of the municipality had no relationship with businesses to management's best knowledge.

Figures in Rand	2012	2011

43. Events after the reporting date

In August 2012, due to severe weather conditions, there were major damages to the following four community halls:
1. Ward 10 - Hlomendini Community Hall;
2. Ward 10 - Lunda Community Hall;
3. Ward 10 - Caba Community Hall;
4. Mvenyane Community Hall.
These assets will be tested for impairment and adjusted accordingly for the period 1 July 2012 going forward.

44. Irregular expenditure

	2012	2011
Add: Irregular Expenditure - current year	525,351	2,898,285
Less: Transfer to trade receivables from non-exchange transaction	-	(2,898,285)
	525,351	**-**

Details of irregular expenditure

Supply of Electricity Cable	165,166
Traffic Signals Installation and Maintenance	360,185
	525,351

45. In-kind donations and assistance

The municipality was not engaged in any transaction or event during the year under review involving in-kind donations..

46. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

	2012	2011
Current year subscription / fee	466,010	286,410
Amount paid - current year	(466,010)	(286,410)
	-	-

Audit fees

	2012	2011
Current year subscription / fee	3,483,244	3,060,841
Amount paid - current year	(3,483,244)	(3,060,841)
	-	-

PAYE and UIF

	2012	2011
Current year subscription / fee	8,019,782	6,105,077
Amount paid - current year	(8,019,782)	(6,105,077)
	-	-

Pension and Medical Aid Deductions

	2012	2011
Current year subscription / fee	7,621,068	9,145,471
Amount paid - current year	(7,621,068)	(9,145,471)
	-	-

Figures in Rand	2012	2011

46. Additional disclosure in terms of Municipal Finance Management Act (continued)

VAT

VAT receivable	299,522	7,248,316

VAT output payables and VAT input receivables are shown in note 4.

All VAT returns have been submitted by the due date throughout the year.

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2012:

30 June 2012	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
MM Mbobo	3,799	2,271	6,070
NE Kotelane	195	-	195
NS Nkopane	268	-	268
SM Ndukwana	1,171	537	1,708
NE Kotelana	605	22,550	23,155
SM Mzozayana	390	585	975
S Mavuka	390	2,192	2,582
M Saliwavikwa	3,969	62,248	66,217
M Saliwavikwa (One stop service station)	3,671	33,914	37,585
PG Muir	20	1	21
KC Biggs	(465)	-	(465)
VM Mlandu	437	11,848	12,285
M Lebese	691	2,033	2,724
	15,141	**138,179**	**153,320**

Councillor back pay	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
NS Nkopane	-	33,124	33,124
PM Stuurman	-	33,124	33,124
KB Makholwa	-	33,124	33,124
CN Sambane	-	33,124	33,124
PZ Bono	-	33,124	33,124
LE Stuurman	-	33,124	33,124
VC Sigalelana	-	7,474	7,474
NE Kotelana	-	7,166	7,166
LM Ntshayisa	-	7,166	7,166
PG Muir	-	29,768	29,768
KC Biggs	-	22,918	22,918
	-	**273,236**	**273,236**

Figures in Rand	2012	2011

46. Additional disclosure in terms of Municipal Finance Management Act (continued)

Supply chain management regulations

In terms of section 36(2) of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved by the Municipal Manager and be reported to Council for noting. The expenses incurred as listed hereunder have been condoned.

Incident		
In an emergency	1,023,340	2,649,851
If such goods or services are produced or available from single provider only	425,013	863,696
In any other exceptional case where it is impractical or impossible to follow official procurement processes	4,798,991	8,690,280
When it is impractical to obtain 3 quotation for small puchases less than 2000	-	256,500
	6,247,344	**12,460,327**

47. Prior period errors

A creditor was raised at the incorrect value. The creditor and the grants and subsidies paid expense were consequently overstated by R136 295. These balances are now correctly stated.

The Tayler Bequest Hospital has been overcharged for electricity since the 06/07 financial year. This matter has been addressed with the hospital as well as the department. As a result, a creditor has been raised for payments received in advance in the prior year of R7 547 589, and applied retrospectively. The income and interest raised in the prior year has been reversed accordingly. A copy of the agreement as well as supporting calculations for the corrections are available at the municipal offices.

An exercise to evaluate the provision for rehabilitation of the landfill site was done in the current year. The provision was recalculated, and in accordance with GRAP 2, corrections are retrospectively applied. The PPE and Interest expense value for the prior year were accordingly adjusted, along with the provision for the landfill site.

Stale cheques existing from 2006/2007 financial year was still reflected as a creditor. As a result an impairment of the creditor was done to correct the stale cheques creditor. The correction of the creditor balance at 30 June 2011 amounts to R609 470. The accumulated surplus account was the contra entry for stale cheques up until 30 June 2010. This impact amounted to R544 477 on that account. The stale cheques for the year ended 30 June 2011 was impaired through the income statement and is reflected as an impairment of creditor R64 994.

The correction of the error(s) results in adjustments as follows:

Statement of financial position		
Property, plant and equipment	-	(1,458,669)
Intangible assets	-	149,922
Payables from exchange transactions	-	(5,667,554)
Provision for landfill site	-	(1,018,036)
Opening Accumulated Surplus or Deficit	-	6,925,031
Unspent Conditional Grants	-	1,134,282

Statement of Financial Performance		
Interest paid	-	465,196
Grants and subsidies paid	-	(136,295)
Repairs and maintenance	-	(33,092)
Depreciation	-	(74,954)
Services charges (electricity sales)	-	2,319,709
Interest earned (electricity)	-	60,207
Creditor impairment	-	(64,994)

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

48. Section 32 procurement

Cyas sound event management	-	-
University of stellenbosch	-	-
Protea consulting	-	-
Nile human capital	-	-
	-	**-**

During the current year the Municipality chose to utilise the provisions of section 32 (s32) of the Supply Chain Regulations to award tenders to companies using the competitive bidding process of other Municipalities. The above companies were appointed by way of use of this provision. All sections of the provisions were adhered to in the awarding of bids.

49. Fruitless and wasteful expenditure

	2012	2011
Opening balance	-	-
Fruitless and wasteful expenditure - current year	167,477	-
	167,477	**-**

The amount for fruitless and wasteful expenditure was incurred and paid in total in the current year. These were in respect of the following three situations:

- A fine of R100 000 was paid to DEDEA for the construction of an access road on a wet land.
- A penalty of R52 855 was paid to SARS for late payment of third(3rd) party payments.
- A sum of R14 622 was paid to Post master in relation of interesxt charged on outstanding telkom account.

50. Changes in accounting policy

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice on a basis consistent with the prior year except for the adoption of the following new or revised standards.

- The application of GRAP 104 is being applied retrospectively. This clearly implies that the municipality is not required to discount debtors and creditors as long as payment terms and conditions are consistent with terms used in the public sector, either through established practices or legislation. The resultant effect of this application calls for a retrospective adjustment to the following line items:

Statement of financial position

	2012	2011
Consumer debtors		
Previously stated	-	6,269,659
Adjustment	-	479,075
	-	**6,748,734**

	2012	2011
Payables from exchange transactions		
Previously stated	-	15,996,278
Adjustment	-	172,563
	-	**16,168,841**

Figures in Rand	2012	2011

50. Changes in accounting policy (continued)

Statement of Financial Performance

Service charges		
Previously stated	-	31,580,756
Adjustment	-	392,690
	-	**31,973,446**
Interest earned - external investment		
Previously stated	-	6,363,551
Adjustment	-	(379,445)
	-	**5,984,106**
Finance costs		
Previously stated	-	1,250,057
Adjustment	-	(617,736)
	-	**632,321**
Debt impairment		
Previously stated	-	1,394,822
Adjustment	-	(465,831)
	-	**928,991**
Repairs and maintenance		
Previously stated	-	8,417,981
Adjustment	-	166,539
	-	**8,584,520**
Bulk purchases		
Previously stated	-	16,078,220
Adjustment	-	316,841
	-	**16,395,061**
General expenses		
Previously stated	-	15,574,663
Adjustment	-	306,918
	-	**15,881,581**

51. Accumulated surplus

Ring-fenced internal funds and reserves within accumulated surplus - 2012

	Capital replacement reserve	Government grant reserve	Housing development fund	Total
Opening balance	28,274,894	71,769,868	1,562,515	101,607,277
Write back of depreciation through Capital Replacement Reserve	116,799	-	-	116,799
Contribution to Capital Replacement Reserve	12,414,857	-	-	12,414,857
Purchase of Property, Plant and Equipment through reserves	(10,565,167)	25,932,353	-	15,367,186
Write-off of Property, Plant and Equipment	-	(1,134,282)	-	(1,134,282)
Write back of accumulated depreciation due to offsetting of accumulated surplus	-	(4,715,489)	-	(4,715,489)
Interest Received	-	-	63,322	63,322
Transfer to Housing Development Fund	-	-	6,482	6,482
	30,241,383	**91,852,450**	**1,632,319**	**123,726,152**

Ring-fenced internal funds and reserves within accumulated surplus - 2011

	Capital replacement reserve	Government grant reserve	Housing development fund	Total
Opening balance	19,854,941	50,379,073	1,496,434	71,730,448
Interest received/(paid)	-	-	59,601	59,601
Changes in revaluation surplus arising from changes in existing decommissioning, restoration and similar liabilities	(127)	(489,940)	-	(490,067)
Grants utilised to obtain Property,Plant and Equipment	-	25,755,376	-	25,755,376
Property, Plant and Equipment purchased	(8,337,400)	-	-	(8,337,400)
Transfer to Capital Replacement Reserve	16,737,296	-	-	16,737,296
Correction of error	-	(1,362,414)	-	(1,362,414)
Write back of depreciation due to offsetting of accumulated surplus	20,184	(2,512,227)	-	(2,492,043)
Transfer to Housing Development Fund	-	-	6,480	6,480
	28,274,894	**71,769,868**	**1,562,515**	**101,607,277**

52. Risk management

Liquidity risk

The municipality’s risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

52. Risk management (continued)

Credit and Interest risk

Credit and Interest risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash.

Financial assets exposed to credit and interest risk at year end were as follows:

Financial instrument	2012	2011
Nedbank	2,051,733	-
Standard Bank	137,734	139,264
First National Bank	76,590	(182,214)
Short term investments	100,518,892	78,920,332
Long term Investments	6,084,739	5,295,774